

Union Calendar No. 297

106TH CONGRESS
2^D SESSION

H. R. 1089

[Report No. 106-547]

To require the Securities and Exchange Commission to require the improved disclosure of after-tax returns regarding mutual fund performance, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

MARCH 11, 1999

Mr. GILLMOR (for himself, Mr. OXLEY, Mr. MARKEY, Mr. TOWNS, Mr. WHITFIELD, Mr. LARGENT, Mr. WAXMAN, Mr. DEAL of Georgia, Mr. BURR of North Carolina, Mr. TAUZIN, and Mr. HALL of Texas) introduced the following bill; which was referred to the Committee on Commerce

MARCH 27, 2000

Additional sponsors: Mr. COX and Mr. BARRETT of Wisconsin

MARCH 27, 2000

Reported with an amendment, committed to the Committee of the Whole House on the State of the Union, and ordered to be printed

[Strike out all after the enacting clause and insert the part printed in *italic*]

A BILL

To require the Securities and Exchange Commission to require the improved disclosure of after-tax returns regarding mutual fund performance, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Mutual Fund Tax
5 Awareness Act of 1999”.

6 **SEC. 2. FINDINGS.**

7 The Congress finds the following:

8 (1) Taxes can be the single biggest cost associ-
9 ated with mutual funds. The average stock fund in-
10 vestor has lost up to 3 percentage points of return
11 every year to taxes.

12 (2) The average portfolio turnover rate for an
13 actively managed (nonindex) fund has increased
14 from 30 percent 20 years ago to almost 90 percent
15 today, and average capital gains distributions of
16 growth funds, per share, have more than doubled in
17 the last 10 years.

18 (3) If a fund’s performance is based mostly on
19 short-term gains, investors can lose a significant
20 part of their return to taxes.

21 (4) Performance figures that investment compa-
22 nies generally disclose to their shareholders are net
23 of fees and expenses, but not taxes, and therefore do
24 not represent the impact taxes have on an investor’s
25 return.

1 (5) This disclosure focuses on how much money
2 investors made before taxes, and not on how much
3 money investors actually got to keep.

4 (6) Improved disclosure of tax efficiency would
5 allow shareholders to compare after-tax returns to
6 raw performance, and would permit the investors to
7 determine whether the fund manager tries to mini-
8 mize tax consequences for shareholders.

9 (7) While the investment company prospectus
10 details the average annual portfolio turnover rate,
11 the prospectus may not expressly inform share-
12 holders about the impact the portfolio turnover rate
13 has on total returns.

14 **SEC. 3. IMPROVEMENTS IN DISCLOSURE REQUIREMENTS.**

15 Within 1 year after the date of enactment of this Act,
16 the Securities and Exchange Commission shall revise reg-
17 ulations under the Investment Company Act of 1940 to
18 require, consistent with the protection of investors and the
19 public interest, improved methods of disclosing in invest-
20 ment company prospectuses and annual reports the after-
21 tax effects of portfolio turnover on investment company
22 returns to investors.

23 **SECTION 1. SHORT TITLE.**

24 *This Act may be cited as the “Mutual Fund Tax*
25 *Awareness Act of 2000”.*

1 **SEC. 2. FINDINGS.**

2 *The Congress finds the following:*

3 *(1) Taxes can be the single biggest cost associated*
4 *with mutual funds. The average stock fund investor*
5 *has lost up to 3 percentage points of return every*
6 *year to taxes.*

7 *(2) The average portfolio turnover rate for an ac-*
8 *tively managed (nonindex) fund has increased from*
9 *30 percent 20 years ago to almost 90 percent today,*
10 *and average capital gains distributions of growth*
11 *funds, per share, have more than doubled in the last*
12 *10 years.*

13 *(3) If a fund's performance is based mostly on*
14 *short-term gains, investors can lose a significant part*
15 *of their return to taxes.*

16 *(4) Performance figures that mutual funds gen-*
17 *erally disclose to their shareholders are net of fees and*
18 *expenses, but not taxes, and therefore do not represent*
19 *the impact taxes have on an investor's return.*

20 *(5) This disclosure focuses on how much money*
21 *investors made before taxes, and not on how much*
22 *money investors actually got to keep.*

23 *(6) Improved disclosure of the effect of taxes on*
24 *mutual fund performance would allow shareholders to*
25 *compare after-tax returns to raw performance, and*
26 *would permit the investors to determine whether the*

1 *fund manager tries to minimize tax consequences for*
2 *shareholders.*

3 *(7) While the mutual fund prospectus details the*
4 *average annual portfolio turnover rate, the prospectus*
5 *may not expressly inform shareholders about the im-*
6 *pact the portfolio turnover rate has on total returns.*

7 **SEC. 3. IMPROVEMENTS IN DISCLOSURE REQUIREMENTS.**

8 *Within 18 months after the date of enactment of this*
9 *Act, the Securities and Exchange Commission shall revise*
10 *regulations under the Securities Act of 1933 and the Invest-*
11 *ment Company Act of 1940 to require, consistent with the*
12 *protection of investors and the public interest, improved*
13 *disclosure in investment company prospectuses or annual*
14 *reports of after-tax returns to investors.*

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